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BUDGET BUZZ

Extension of the tax holiday along-with tax certainty for IFSC

BUDGET PROPOSAL

The Finance Bill, 2026 proposes to extend the tax holiday period for units located in an IFSC to **20 consecutive years out of a block of 25 years**, and to **20 consecutive years** for Overseas Banking Units. It further proposes that, upon expiry of the deduction period, the **business income of such IFSC units shall be taxed at a concessional rate of 15%**.

The Finance Act, 2025 had provided a relaxation from the applicability of the **provisions for deemed dividend** in respect of loans and advances received by a parent entity listed on a stock exchange outside India from a Finance Company located in an IFSC. The Finance Bill, 2026 proposes that **such an exemption shall be available only where the country of listing is notified by the Central Government**.

IMPACT

The Finance Bill 2026 significantly enhances the long-term appeal of IFSC and OBUs by extending the profit-linked deduction to 20 consecutive years (within 25 years for IFSC units) and then taxing business income at a concessional rate of 15%, creating a predictable tax lifecycle for large financial operations. Coupled with the relaxation on deemed dividend for loans/advances from IFSC finance companies to foreign-listed parents in Finance Act, 2025, this reduces tax friction in group treasury and funding structures. However, limiting this relief to parents listed in "notified" jurisdictions introduces a new eligibility filter.

Groups with non-notified listing jurisdictions may need to revisit IFSC funding models given continued deemed dividend exposure.

ELP's Insights

The Union Budget's proposal to extend the tax holiday for GIFT City IFSC units from 10 to 20 years, followed by a flat 15% tax rate, thereafter, is a deliberate long-horizon incentive to position GIFT City as India's primary international financial hub.

Since the inception of the IFSC, GIFT City has seen a steady increase in foreign investments over the last few years, however, many early investors, constrained by initial infrastructure and ecosystem gaps within GIFT City, have not been able to operate at the scale or efficiency originally envisaged. In this context, the extension of the tax holiday is a welcome and corrective measure, it not only strengthens the proposition for future foreign investors but also effectively extends the runway for existing investors so that they are not disadvantaged relative to later entrants. Compared with the 35% base rate for foreign companies outside GIFT City, this two-stage regime (0% for 20 years, then a concessional 15%) makes it significantly more attractive for global reinsurers, banks, funds and other financial institutions to base international operations in IFSC, offering both immediate tax savings and long-term predictability.

Strategically, this move is intended to compete with regional financial centres like Singapore and Dubai, encourage "India-related" offshore structures to migrate onshore into GIFT City, and deepen India's role in global capital flows. While it involves a clear revenue trade-off for the government, it is expected that the gains in market depth, employment, and ancillary services will outweigh the loss in direct tax collection.

There is an interaction with global initiatives such as the OECD's Pillar Two global minimum tax as well. Large multinational groups will need to analyse whether a 0% or 15% rate in GIFT City is fully effective at the group level or partially neutralized by top-up taxes elsewhere.

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